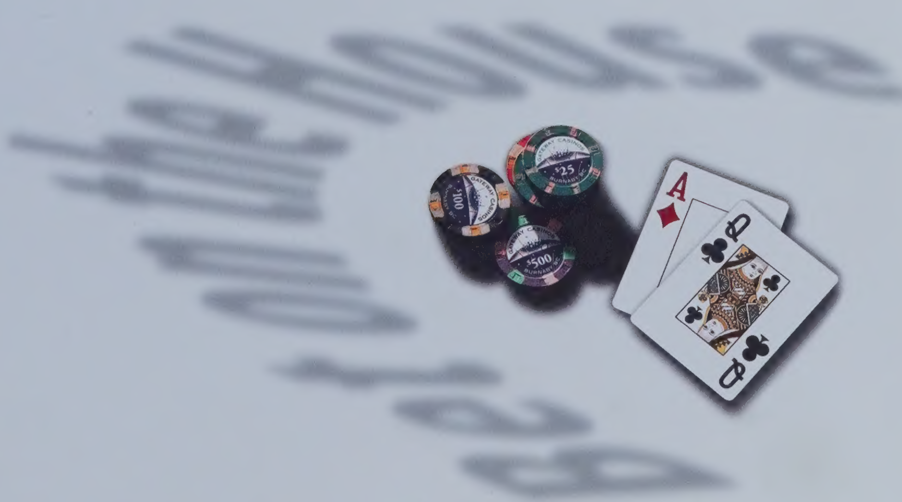
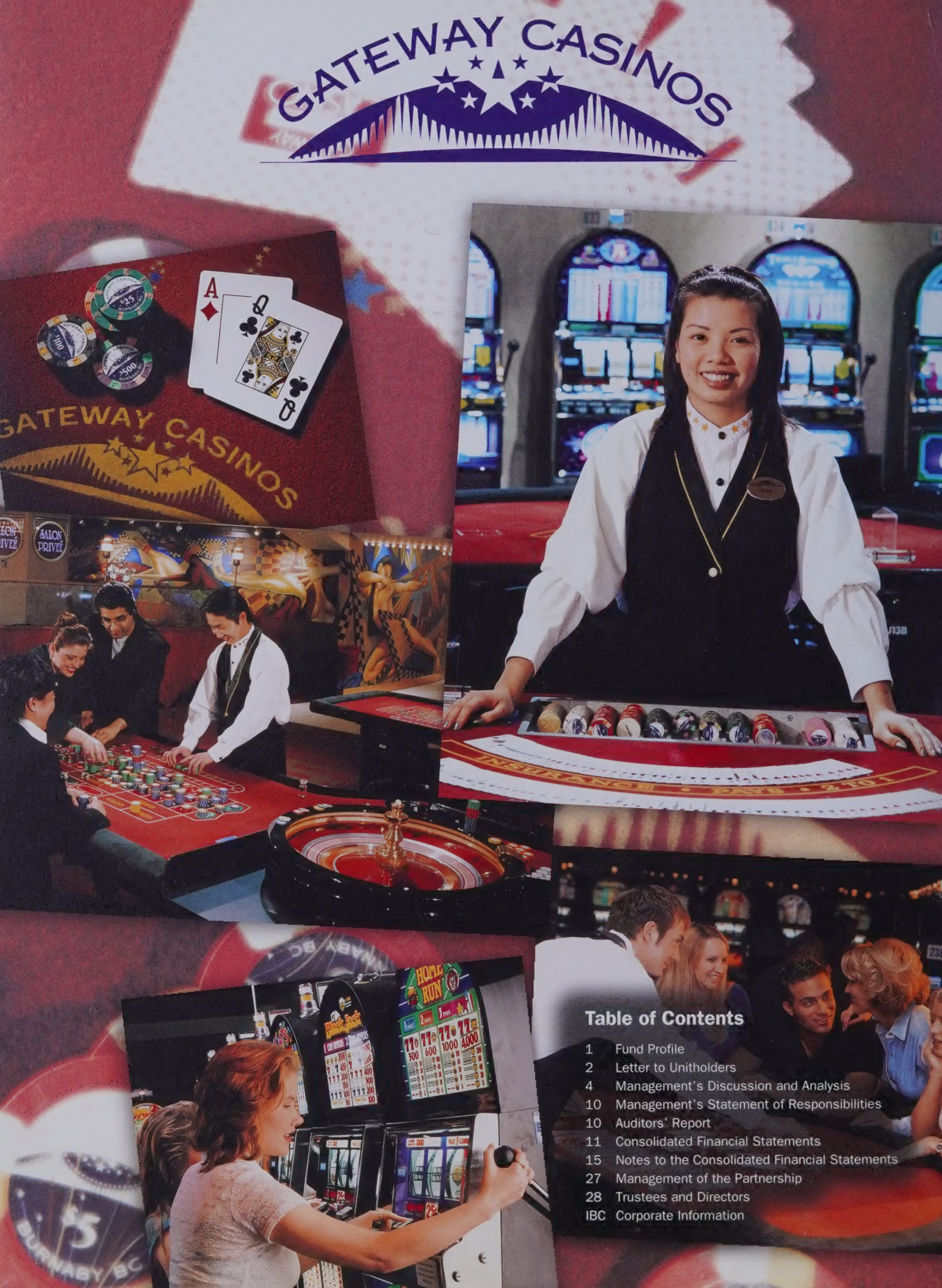
Gateway Casinos Income Fund

Annual Report 2002

For the period November 28, 2002 – December 31, 2002





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Fund Profile

The Gateway Casinos Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of British Columbia. The Fund, which was formed to indirectly acquire and hold the securities of the Gateway Casinos Limited Partnership ("Gateway"), makes monthly distributions to unitholders based on Gateway's financial performance.

Overview

Headquartered in Burnaby, B.C., Gateway is one of the largest casino operators in Western Canada. Under agreements with the British Columbia Lottery Commission ("BCLC") and the Alberta Gaming and Liquor Commission ("AGLC"), we operate six casinos:

- the Burnaby Casino in Greater Vancouver, B.C.,
- the Palace Casino in Edmonton, Alberta, and
- the four Lake City Casinos in Kamloops, Kelowna, Penticton and Vernon, B.C.

In total, we operate 1,948 slot machines and 112 gaming tables, as well as Sega Royal Ascot electronic horse racing at the Palace Casino and the Kelowna casino.

In return for providing the facilities, furniture and fixtures, labour, security, marketing and administration at each casino, Gateway receives a fixed percentage of the revenue, or "win", generated.

Business Strategy

The growing public acceptance of gaming, together with provincial governments' increasing reliance on alternate revenue sources, is driving the rapid expansion of the casino market. In 2000, Canadian casino win totaled $3.2 billion, and recorded year-over-year growth of 11.6%.

To attract more patrons, build revenues, and help maintain our strong working relationships with our provincial government partners, Gateway has differentiated itself through:

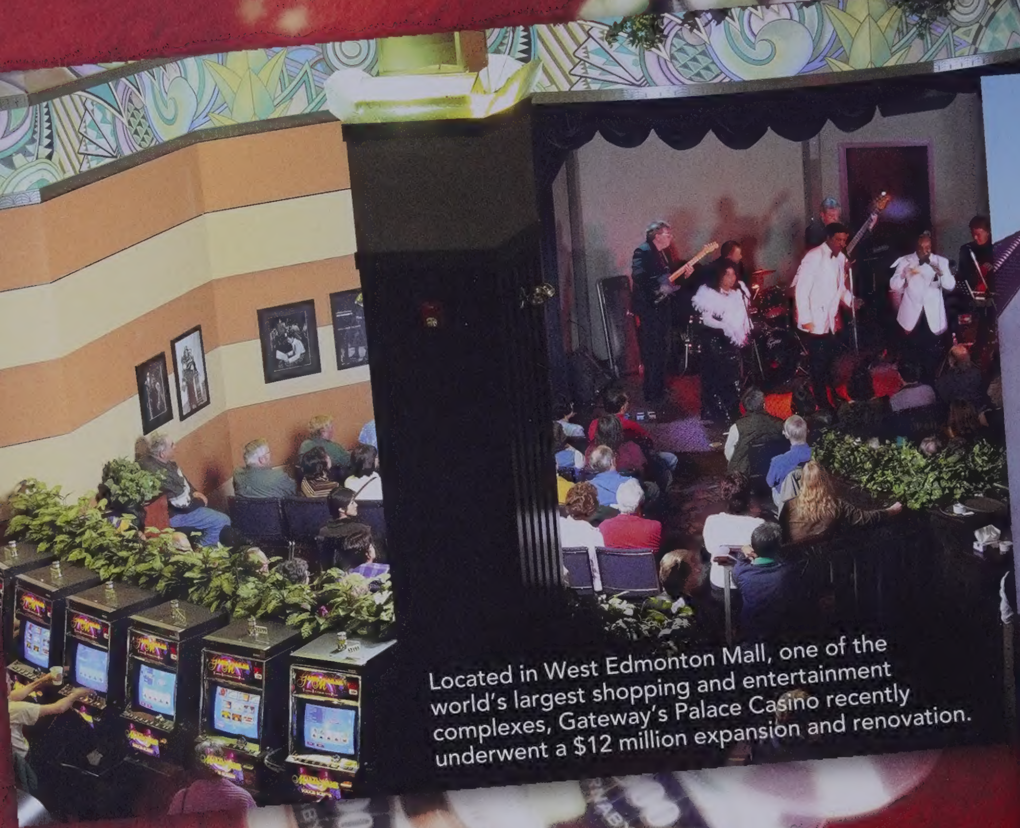
- Attractive, conveniently located premises
- Superior customer service
- Exceptional security and surveillance

By providing an enjoyable and entertaining gaming experience, Gateway has developed a loyal, and growing, customer base. This has enabled us to command a significant share of the gaming market in all three of our operating regions.

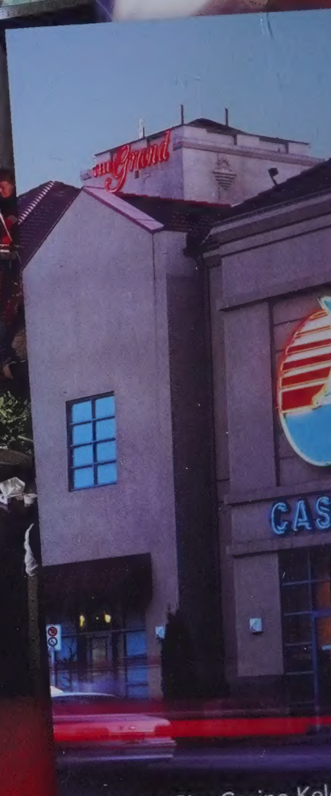
Growth Opportunities

Gateway's future growth will come both internally and through acquisitions. Our business expansion opportunities include:

- Increasing customer visits at our existing operations by enhancing the gaming experience
- Adding games at our current operations, as market demand grows
- Introducing new table games and slot machines, as they are approved by the AGLC and BCLC
- Acquiring additional casino operations
- Expanding into new markets



Located in West Edmonton Mall, one of the world's largest shopping and entertainment complexes, Gateway's Palace Casino recently underwent a $12 million expansion and renovation.



Lake City Casino Kel... located in Kamloops... total of 48 tables an...

GATEWAY

Table Games
Slot Machine...
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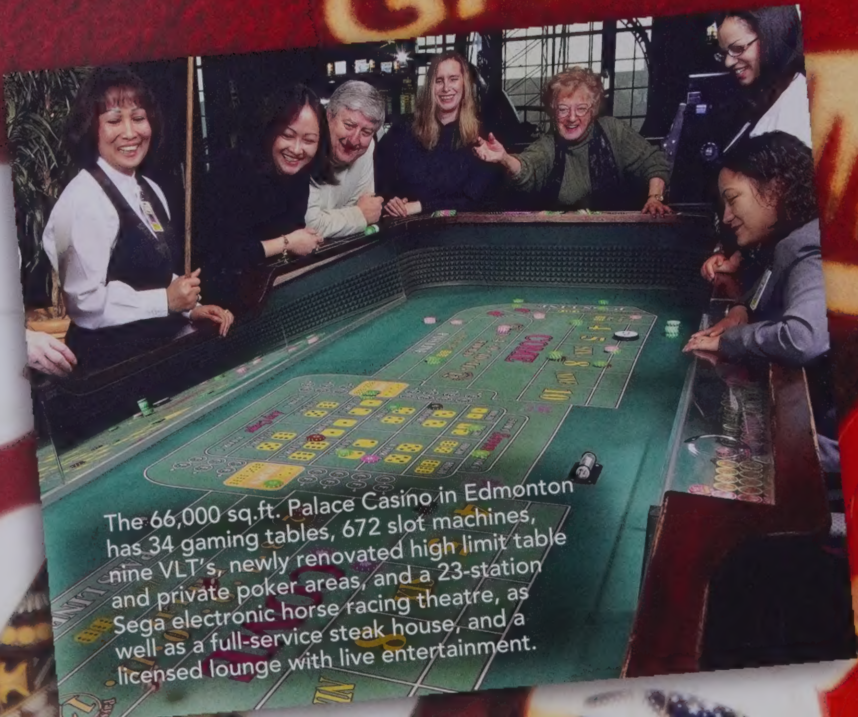
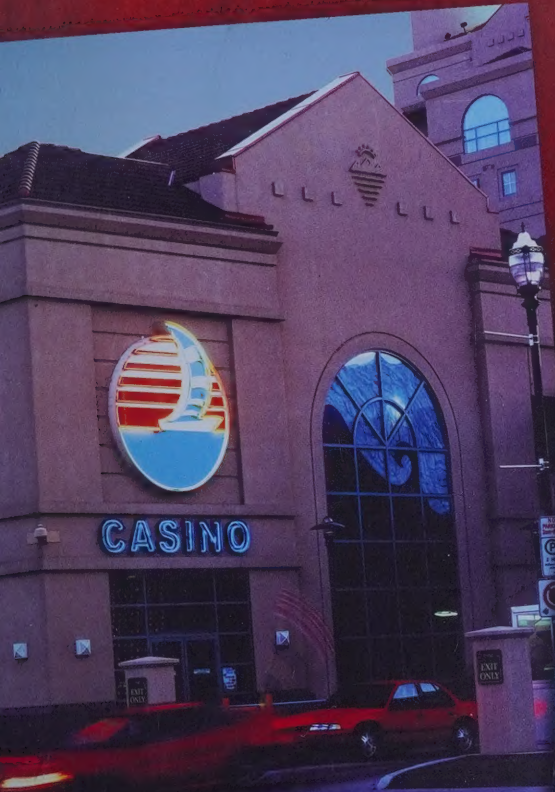
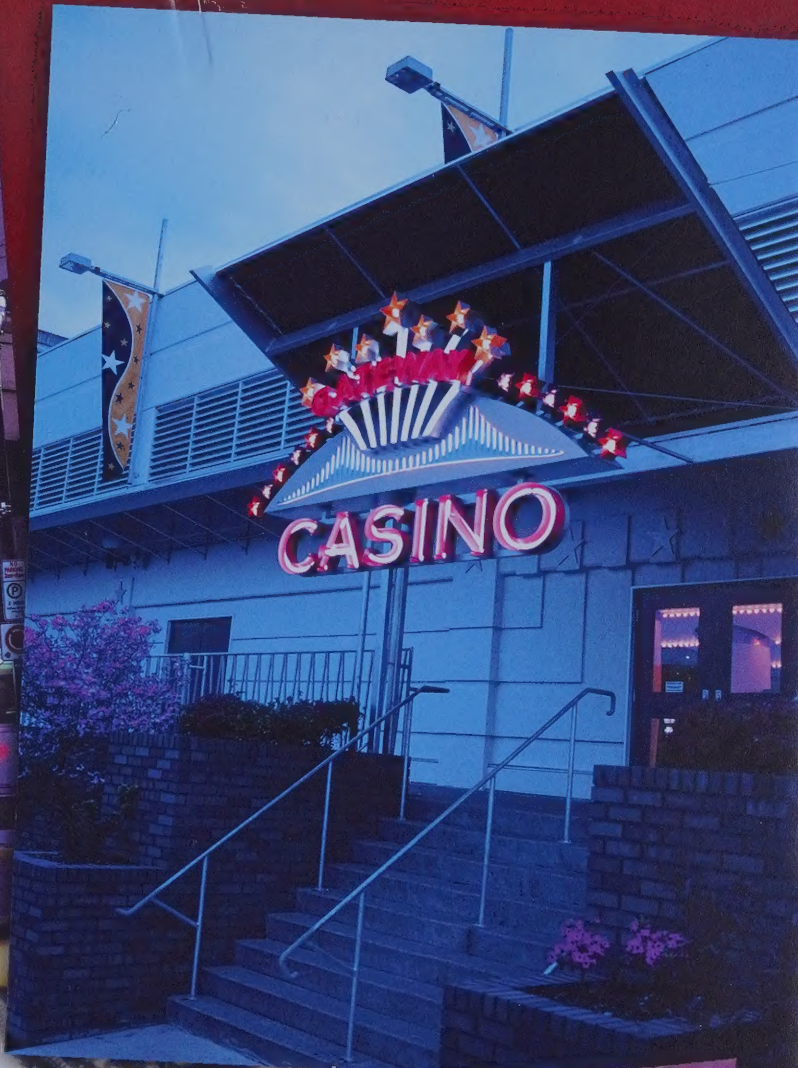


The 66,000 sq.ft. Palace Casino in Edmonton has 34 gaming tables, 672 slot machines, nine VLT's, newly renovated high limit table and private poker areas, and a 23-station Sega electronic horse racing theatre, as well as a full-service steak house, and a licensed lounge with live entertainment.



B.C. – The four Lake City Casinos
rna,Penticton, and Vernon have a
lot machines.



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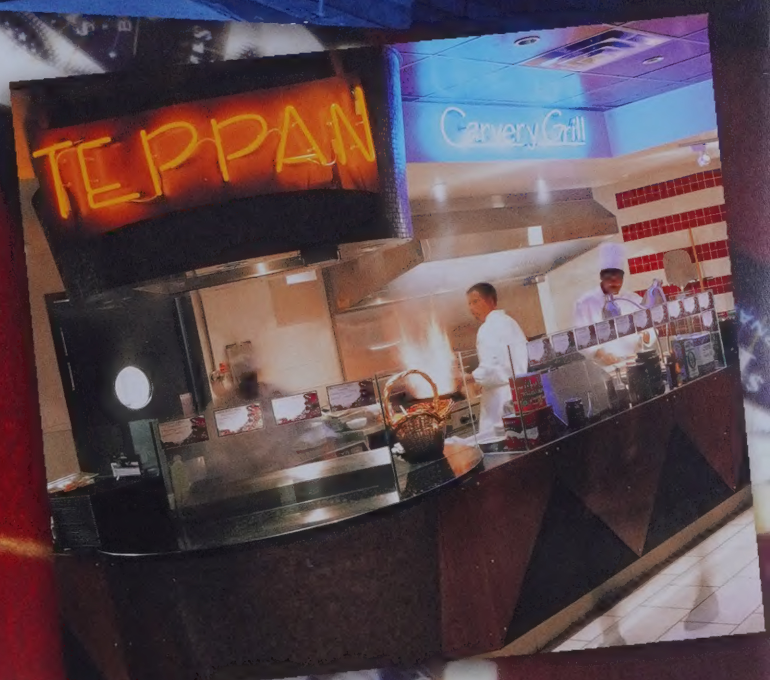

To Our Unitholders

On behalf of the Trustees and management of the Gateway Casinos Income Fund, we would like to extend a warm welcome to all our new unitholders. Our first report to you covers the 34-day period since our inception on November 28, 2002 to December 31, 2002, our year-end. Accordingly, no comparative figures are presented.

The Gateway Casinos Income Fund (the "Fund") was launched with the completion of our initial public offering on November 28, 2002. Concurrently, we indirectly acquired, through the Gateway Casinos Limited Partnership ("Gateway"), the operations of the Burnaby Casino in Greater Vancouver, the four Lake City Casinos in the Thompson/Okanagan region of British Columbia and the Palace Casino in Edmonton.

Gateway is now one of the largest casino operators in Western Canada, and, as the first income trust of its kind, offers our unitholders a unique way to invest in the Canadian gaming industry.

Business Overview

The underlying driver of our business is a rapidly growing casino market. Between 1999 and 2000, Canadian casino revenue, or "win", grew by 11.6% to $3.2 billion. In fact, casino win has grown at double-digit rates for seven of the last eight years. There are two key factors behind this market expansion – the increased public acceptance of gaming and the provincial governments' growing dependence on the revenue casinos generate.

Gateway operates five casinos in British Columbia and one in Alberta, under agreements with the provincial governments. In return for providing the facilities, furniture and fixtures, labour, security, marketing and administration at each casino, Gateway receives a fixed percentage of the win generated.

By providing superior customer service, attractive, conveniently located premises and leading-edge security, we're capitalizing on the growth of the casino market, and building a strong, loyal customer base.

Operations Review

Gateway has performed well since our inception, generating results that are in line with our expectations and the parameters presented in our IPO prospectus. During our first 34 days of operation, the Fund generated distributable cash of $3.1 million, or 11.8 cents per unit. On December 17, we declared a distribution of 11 cents per unit to unitholders of record on December 31, 2002, and paid the distribution on January 31, 2003.

One key operational development was the December 7th opening of a designated smoking room at our Burnaby Casino. Developed in response to a province-wide workplace smoking ban that took effect earlier in 2002, the smoking area contains 70 of the casino's 300 slot machines. Since opening the space, the casino's profitability (as measured by "revenue per machine per day" – a key determinate) has returned to pre-ban levels. As the four Lake City Casinos were previously designated non-smoking areas, the smoking ban did not affect their profitability.

Outlook

The positive trend begun during Gateway's initial operating period has continued into the first quarter of fiscal 2003. While a 10-day stretch of extremely cold weather led to a temporary drop in customer visits at the Palace Casino in Edmonton, results at the Burnaby Casino and the Lake City Casinos have been at, or above, budget. Accordingly, the Fund met our distribution targets for January, February and March.

As we move forward, the outlook is for continued good results. In British Columbia, there are clear indications that the provincial government intends to continue supporting the growth of casino operations. The February release of the provincial government's 2003/2004 budget was particularly promising, as its revenue forecasts included net income of $725 million from the British Columbia Lottery Commission ("BCLC"), the government body responsible for B.C.'s gaming industry. This represents a $55 million increase over the provincial government's forecasted results for 2002/2003. And that's just the beginning. Looking ahead, the government is forecasting net income from the BCLC to reach $900 million for 2005/2006.

According to the budget, this income growth will be generated by increasing the number of slot machines in B.C. from approximately 3,300 to the current policy maximum of 5,400, and by updating the current generation of reel stepper machines to "industry standard" slot machines. We have already begun to see the introduction of this new, more interactive, slot product in our B.C. casinos and expect this to have a positive impact on the Fund's earnings and distributable cash. Consequently, we're confident that Gateway will meet, or exceed, our projected cash distributions of $1.20 per unit for 2003.

In closing, we'd like to take this opportunity to extend our thanks to Gateway's management and employees for all their support and effort in 2002. Providing a superior and consistent customer experience plays a key role in our ongoing success, and for that, they deserve much credit.

We'd also like to thank all of our unitholders for the trust you have demonstrated in us. We're confident the Fund's performance will continue to meet your expectations in the coming months and beyond.

Sincerely,

Raymond A. McLean

Chairman, Gateway Casinos Income Fund
Chief Executive Officer, Gateway Casinos G.P. Inc.

Dave Gadhia

Trustee, Gateway Casinos Income Fund
President, Gateway Casinos G.P. Inc.

This discussion of our operating results and financial position should be read in conjunction with the audited consolidated financial statements of the Gateway Casinos Income Fund (the "Fund") for the period from November 28, 2002 to December 31, 2002, as well as the accompanying notes.

The Canadian Gaming Industry

Gaming has existed in various forms since as early as 2100 B.C., and social attitudes toward gaming have varied considerably during that time. In the fourteenth century, all games other than archery were banned in England. This principle of blanket prohibition was enshrined in Canadian legislation and, as a result, most gaming was prohibited in Canada until 1969, when the federal government amended the Criminal Code to permit gaming conducted by government. Casinos were first introduced to Canada in Alberta in 1975.

In Canada, most gaming activities, including casino operations, are conducted and managed by the provincial governments. They retain the majority of the revenue generated after pay out to customers, in order to support charitable organizations and government initiatives. The gaming industry is generally considered to include lotteries, bingo games, pari-mutuel wagering (such as horse racing) and games typically associated with casinos, such as table games and slot machines. Revenue is measured in terms of "win", which is the amounts wagered on gaming activities less payout to customers.

Canada's gaming industry has experienced tremendous growth over the last decade, recording increases in annual gaming win every year since 1992, often at double-digit rates. During 2000, Canadian gaming win totaled $10.0 billion, an increase of 16.3% over 1999. Of this, casino win accounted for 32%, or approximately $3.2 billion. This represents an increase of 11.6% over 1999, and a five-year compounded annual growth rate of 26.3%.

Two key factors are driving this expansion. The first is a growing acceptance among Canadians of gaming as a legitimate form of entertainment. A Canada-wide survey conducted by the Canada West Foundation (an independent public policy research institute) published in August 2001, reported that 63% of the respondents viewed gaming as an acceptable activity within their province. In addition, according to Statistics Canada, approximately three-quarters of adult Canadians engaged in some form of gaming during 2001.

The second factor behind the Canadian gaming industry's growth is the provincial governments' increasing reliance on "alternate" sources of revenue. Between 1992 and 2000, annual per capita gaming expenditure among persons of legal gaming age in Canada increased by 226%, growing from $130 to $424. During the same period, the total gaming revenue earned by our provincial governments increased by approximately 230%, growing from $1.7 billion to $5.6 billion. Most of that growth came from casinos and video lottery terminals ("VLTs"). In 1992, casinos accounted for just 1% of gross gaming profits, while VLTs accounted for 9%. By 2000, their share had grown to 32% and 25% respectively.

Background and Formation of the Fund

The Gateway Casinos Income Fund (the "Fund") was launched on November 28, 2002 when we completed our initial public offering and indirectly acquired the operating assets of the Burnaby Casino in Greater Vancouver, British Columbia, the four Lake City Casinos in the Thompson/Okanagan

region of British Columbia and the Palace Casino in Edmonton, Alberta, from wholly owned subsidiaries of Gateway Casinos Inc. ("GCI").

The casinos are operated by the Gateway Casinos Limited Partnership ("Gateway" or "the Partnership"), through operating agreements and licenses with the British Columbia Lottery Corporation ("BCLC") and the Alberta Gaming and Liquor Commission ("AGLC"). The Fund is, indirectly, a limited partner in Gateway, and holds all of the voting rights with respect to its operations. The Fund makes monthly cash distributions to our unitholders based on Gateway's operating results.

On November 28, 2002, Gateway acquired the operating assets of the Burnaby Casino, the four Lake City Casinos, and the Palace Casino for total consideration of $275,539,000, consisting of Class A Units of the Partnership with a stated capital of $227,180,000 and promissory notes of $48,359,000. Concurrent with the acquisition, the Fund issued 10,567,000 units at a price of $10 per unit pursuant to our initial public offering and a further 15,850,687 units at a price of $10 per unit to the shareholders of GCI. Net proceeds of the offerings totaled $254,726,000, after deducting offering expenses of $9,451,000. The proceeds were used to subscribe for 2,550,269 units of Gateway Trust (the "Trust") and $229,524,000 of Trust Notes bearing interest at 8.0% per annum. In turn, the Trust subscribed for Class B units of the Partnership with a stated capital of $24,847,000 and advanced secured loans of $227,180,000 to the GCI subsidiaries (the "Secured Loans"). The Secured Loans bear interest at 8% per annum and are secured by all the Class A Units of the Partnership and the proceeds from any distributions or redemptions of these units.

Operating Results

These operating results represent the 34-day period since the Fund's inception on November 28, 2002 to our year-end on December 31, 2002. Accordingly, there is no comparative information provided. The amounts presented below are based on the audited consolidated financial statements of the Fund, which have been prepared in accordance with Canadian generally accepted accounting principles.

Revenue

Gateway's revenue is primarily earned through fees paid by the BCLC and AGLC for operating a total of six casinos (five in B.C. and one in Alberta). The fees paid are a percentage of each casino's "net win", which is equal to the total amount wagered by players, less the total amount paid out in winnings. The fee structure varies between B.C. and Alberta, and also between the game types, as set out below:

	B.C.	Alberta
Slot machines and electronic games	25%	15%
Table games (excluding craps and poker)	40%	50%
Craps	n/a	75%
Poker	n/a	75% of fees charged to players for providing dealers

Gateway also generates revenue by providing related casino services such as food and beverage, parking and automatic teller machines. Gateway retains all of this revenue.

During the 34-day period from November 28, 2002 to December 31, 2002, Gateway generated revenue of $7.5 million from the operations of its six casinos. Revenue from slot machines and electronic games accounted for 59% of the total, while revenue from table games accounted for 34%. Approximately 43% of the revenue was generated at the Burnaby Casino, which is located in Greater Vancouver, British Columbia.

In May 2002, the Workers' Compensation Board implemented a smoking ban in all B.C. workplaces, which temporarily reduced slot machine revenue at the Burnaby Casino. (As the Lake City casinos were already designated non-smoking, they were not impacted by the ban.) On December 7, 2002, Gateway opened a designated smoking facility within the Burnaby Casino to house 70 of the casino's 300 slot machines. Since then, slot machine revenues have returned to their pre-ban levels.

Expenses

Expenses before interest and amortization totaled $4.4 million for the period, including human resources costs of $2.9 million. This represents approximately 65% of Gateway's total direct operating costs. Corporate and general administration costs of $354,000 represent total corporate administration costs, net of recoveries from GCI of $104,000. Under the terms of a management agreement, Gateway's management also manages GCI's casino operations. Administration costs are recovered from GCI through a management fee equivalent to GCI's proportionate share of the costs. The proportionate share is based upon a combination of factors, including revenue, with consideration given to time spent on behalf of GCI by senior executives of the Fund, on matters related to sourcing and developing additional gaming opportunities. For the period of November 28, 2002 to December 31, 2002, the recovery was based solely on revenue, as there was virtually no time spent on development opportunities.

EBITDA

Earnings before interest and amortization ("EBITDA") for the period amounted to $3.1 million, which is equivalent to an EBITDA margin of 42%.

Interest Expense

Interest expense for the period was $131,000, the net of $140,000 in interest expense and $9,000 in interest income. Although Gateway's operating facility bears interest at a rate that floats with the prime rate, it has entered into an interest rate swap agreement, which effectively converts the interest rate on $21,500,000 of its long-term debt from floating to fixed. After accounting for the interest rate swap, the effective interest rate on the facility for the period was 6.39%.

Interest income on Secured Loans accrues at 8.0% per annum and is payable monthly, on or before the last day of the following month. The Secured Loans are secured by the Class A Partnership Units issued on acquisition, as well any distributions thereon. The Class A Partnership Units entitle the holders to a preferential, non-cumulative allocation of the Partnership's income, equal to 8.01% per annum of the capital attributed to Class A Partnership units. These two cash flow streams effectively net to zero in the Fund's earnings.

Net Earnings

After amortization, the Fund generated net earnings for the period of $2.6 million, or $0.10 per unit, which was consistent with our expectations.

Liquidity and Capital Resources

Distributable Cash and Distributions

Our policy is to make monthly distributions to our unitholders to the maximum extent possible. Distributions per unit are equal to a pro-rata share of our distributable cash earned each month. Distributable cash is not a defined term under Canadian GAAP, and is defined by the Fund as EBITDA less capital expenditures, reserves determined by the Trustees to be reasonable and necessary to maintain our ongoing operations and amounts paid in connection with any redemptions of units.

For the period of November 28, 2002 to December 31, 2002, the Fund generated distributable cash of $3,112,000, or $0.118 per unit. We declared a cash distribution of $2,906,000, or $0.11 per unit, payable to unitholders of record on December 31, 2002, and paid the distribution on January 31, 2003.

Capital Expenditures

Gateway operates five casinos in B.C. and one casino in Alberta. The majority of the gaming equipment, including slot machines and other electronic games, is provided and maintained by the BCLC and the AGLC. Gateway's responsibility for capital expenditures relates primarily to furniture and fixtures, leasehold improvements, and security and surveillance equipment. During the period, Gateway incurred total capital expenditures of $52,000.

Gateway's agreements with the BCLC include a provision for the reimbursement of eligible capital and operating expenses from a facility development fund ("FDF') equal to 3% of the total net win generated at the five B.C. casinos. This reimbursement is in addition to the fee paid for operating the casinos. Accumulated funds are held in trust in accounts managed by Gateway and reimbursements are issued from these accounts. As at the date of their acquisition, the four Lake City Casinos had incurred approved eligible expenses in excess of the amount accumulated in the FDF account. The balance of these unrecovered eligible expenditures at that date was $13,544,000. These amounts are recovered as additional funds accumulate in the FDF account for the four casinos.

During the period, Gateway received a total of $265,000 in FDF recoveries. Of this, $174,000 was a reimbursement of capital expenditures related to the balance of unrecovered expenditures at the Lake City Casinos and $91,000 was related to the reimbursement of approved operating expenses. In addition, Gateway had a receivable of $83,000 at December 31, 2002, which represented $38,000 of capital expenditures and $45,000 of eligible operating costs incurred at the Burnaby Casino, which will be reimbursed on approval from BCLC.

We estimate that Gateway's annual sustaining capital requirement is approximately $800,000, of which approximately $500,000 is anticipated to be eligible for reimbursement from the FDF accounts. In addition to the sustaining capital requirement, we recently approved a $700,000 renovation at the Kamloops Lake City Casino in connection with a proposal by the BCLC to install an additional 25 slot machines and expend $800,000 in marketing and signage. The renovation, which will be undertaken in phases in order to minimize the interruption to casino operations, began in mid-April and is scheduled for completion by the end of May. We expect that the casino's renovation, and the additional 25 slot machines, will have a positive effect on the Fund's distributable cash. The renovation's total cost will be eligible for reimbursement from the FDF, as funds are accumulated. We are reviewing short-term financing alternatives so that monthly distributions will not be impacted, such that the capital cost will be funded through the incremental revenues.

Capital Resources

At December 31, 2002, the Fund had a net working capital balance of $1,045,000. Gateway also has additional credit available under its operating facility to meet short-term cash requirements. Total credit available to Gateway under its existing operating facility is $25,000,000. At December 31, 2002, Gateway had drawn $22,700,000, leaving $2,300,000 available for future draws.

Risk Factors

Investment in the Fund is subject to certain risks that are inherent in the operation of our business. These include the regulated nature of the gaming industry, competition and interest rate risk. Risk and risk exposures to these and other risks are managed through a combination of sound business practices and internal controls.

Regulated environment

The casino industry in B.C. and Alberta is highly regulated. The agreements and licenses under which Gateway operates the casinos are subject to various federal and provincial statutes, regulations, policies and procedures, as they currently exist and as amended from time to time. Gateway has limited control over the mix of table games and slot machines it offers in its casinos, or over the payment it receives out of the total win generated from the gaming conducted within its casinos. Although our relationship with the BCLC and AGLC is strong, and its opinions and ideas are given consideration, changes in the regulatory environment could negatively affect Gateway's operations.

Competition

Entry into the gaming industry in B.C. and Alberta has been highly regulated to date. However, there is no assurance that the provincial governments' existing policies restricting entry into the gaming industry will continue. The introduction of new casinos into the markets in which Gateway operates could negatively impact the profitability of its operations. However, as it is the governments that invest the majority of the capital required to open a casino, it is not in their best interest to allow additional casinos to operate in markets where demand does not exceed supply.

Employee relations

As with other businesses in the hospitality sector, the casino industry is labour intensive. Wages and benefits account for approximately 65% of the total operating costs at Gateway's casinos. Certain employees of the Lake City Casinos are members of the British Columbia Government Employees Union. Employees at the Palace Casino, while not unionized, are members of the Palace Casino Staff Association, which acts as the sole bargaining agent for the employees. Strikes, lockouts, work stoppages or similar actions could restrict Gateway's ability to operate its casinos and service its customers.

Interest rate risk

Gateway has certain floating rate debt and may be negatively impacted by increases in interest rates, the effect of which would increase interest expense. Gateway mitigates this risk by entering into interest rate swap agreements.

At December 31, 2002, Gateway had entered into interest rate swap agreements to effectively convert $21,500,000 of the amount outstanding on its operating facility to fixed rate debt, leaving a total of $1,200,000 subject to interest rate fluctuations

Outlook

Our objective is to provide our unitholders with stable cash distributions that have the potential to grow over time. We believe this growth will come from internal expansion at the six casinos Gateway operates, as well as from acquisitions.

Internal growth is expected to come primarily from Gateway's five B.C.-based casinos. The casino industry in B.C. is much less mature than other Canadian gaming jurisdictions, both in terms of casino gaming supply and the types of games available. This is mainly attributable to past government policy. Recently, however, there have been clear indications that B.C.'s provincial

government supports casino operations. The February 2003 release of its 2003/2004 budget presented revenue forecasts that include net income of $725 million from the BCLC. This represents a $55 million increase over the forecasted results for 2002/2003. Looking ahead, income from the BCLC is projected to reach $900 million for 2005/2006. According to the budget, this new income will be generated by increasing the number of slot machines available in B.C. to the current policy maximum of 5,400, and by updating existing slot machines to industry-standard. Gateway has already begun to see the replacement of older slot machines with new slot product in its B.C. casinos. We believe this will have a positive impact on our earnings and distributable cash.

We also believe that growth opportunities may come through the acquisition of existing casino licenses and operations. Gateway's extensive operating experience and strong relationships with the BCLC and the AGLC mean it is well positioned to acquire additional operations in both British Columbia and Alberta, as well as to expand into new markets as opportunities become available.

Gateway has entered into an agreement with GCI, where GCI has granted a right of first offer to Gateway on any future sale, transfer or other disposition of any material property or assets of GCI pertaining or relating to the gaming industry, including its existing casino operations in New Westminster and Vancouver, and the Baccarat casino in Edmonton. In addition, GCI's shareholders have granted a right of first offer to Gateway on any future sale, transfer or other disposition of more than 50% of the shares in GCI, subject to the existing rights of the other GCI shareholders and their permitted transferees. GCI and its shareholders have also granted Gateway a pre-emptive right to evaluate and pursue the proposed acquisition of any business relating to the gaming industry, either by way of shares or assets, which GCI or its shareholders wish to pursue, other than those shares, properties or assets identified for Gateway as being evaluated by GCI or its shareholders at the date of acquisition. These agreements provide Gateway with a captive pool of potential acquisitions.

Currently, we expect the Fund to meet or exceed our projected distributions of $1.20 per unit for 2003.

Forward-looking statements

This management's discussion and analysis contains forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates", "believes", "continue", "could", "expects", "indicates", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including the effects, as well as changes in: national and local business and economic conditions; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; and legislation and governmental regulation. Although the forward-looking statements contained in this management discussion and analysis are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements.

Management's Statement of Responsibility

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Trustees ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

Dave Gadhia
President, Gateway Casinos G.P. Inc.

Bradley D. Bardua, CA
C.F.O., Gateway Casinos G.P. Inc.

Auditors' Report

To the Unitholders of Gateway Casinos Income Fund

We have audited the consolidated balance sheet of Gateway Casinos Income Fund (the "Fund") as at December 31, 2002 and the consolidated statements of earnings, unitholders' equity and cash flows for the period from November 28, 2002 to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations, changes in unitholders' equity and its cash flows for the period from November 28, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, Canada
February 28, 2003 (except as to notes 12(a) and 12(b) which are as at March 31, 2003)

CONSOLIDATED BALANCE SHEET

(expressed in thousands of dollars)

December 31, 2002		
ASSETS		
Current assets		
Cash and cash equivalents	$	18,529
Accounts receivable		941
Facility development fund receivable (note 5)		83
Inventory		139
Prepaid expenses		303
Current portion of prepaid rent (note 14)		333
		20,328
Prepaid rent (note 14)		4,222
Property and equipment (note 6)		10,738
Goodwill		1,702
Intangible assets		20,517
Secured loans (note 7)		227,180
	$	284,687
LIABILITIES		
Current liabilities		
Gaming revenue payable to BCLC and AGLC		4,270
Accounts payable and accrued liabilities		4,011
Due to related parties (note 12)		8,096
Distributions payable to unitholders (note 4)		2,906
		19,283
Long-term debt (note 8)		23,600
Class A Partnership Units (note 9)		227,180
		270,063
UNITHOLDERS' EQUITY		14,624
	$	284,687

Organization, acquisition and nature of operations (note 1)
Basis of presentation (note 2)
Commitments and contingencies (note 14)

Approved by the Board of Trustees of Gateway Casinos Income Fund:

Trustee

Trustee

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(Expressed in thousands of dollars)

For the period from November 28, 2002 to December 31, 2002		
Balance – Beginning of period	$	–
Issue of trust units, net of issue costs (note 10)		254,726
Reduction to reflect excess of consideration paid over Historical Book Values of assets acquired (notes 1 and 10)		(239,818)
Trust units		14,908
Net earnings for the period		2,622
Distributions declared during the period (note 4)		(2,906)
Balance – End of period	$	14,624

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

(Expressed in thousands of dollars, except per unit and number of unit figures)

For the period from November 28, 2002 to December 31, 2002

Revenue		
Table games	$	2,527
Slot machines and other electronic games		4,460
Food and beverage services		371
Other		156
		7,514
Expenses		
Corporate and general administration (note 12)		354
Cost of food and beverage services		282
Human resources		2,862
Marketing and promotions		165
Occupancy		332
Operating		395
		4,390
Earnings before interest and amortization		3,124
Interest income on secured loans (note 7)		1,692
Income allocation on Class A Partnership Units (note 9)		(1,695)
Interest expense, net		(131)
Amortization		
Property and equipment		(231)
Intangible assets		(106)
Prepaid rent (note 14)		(31)
Net earnings for the period	$	2,622
Basic and fully diluted earnings per unit	$	0.10
Weighted average number of units		26,417,687

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of dollars)

For the period from November 28, 2002 to December 31, 2002	
Cash flows from operating activities	
Net earnings for the period	$ 2,622
Items not affecting cash	
Amortization of property and equipment	231
Amortization of intangible assets	106
Amortization of prepaid rent	31
	2,990
Changes in non-cash working capital items	2,406
	5,396
Cash flows from investing activities	
Purchase of property and equipment	(52)
Facility development fee received for property and equipment purchased (note 5)	174
Acquisition of casino operations, net of cash acquired (note 1)	(43,396)
Secured loans (note 7)	(227,180)
	(270,454)
Cash flows from financing activities	
Issue of trust units, net of issue costs (note 10)	254,726
Advances from related parties	6,161
Long-term debt proceeds	22,700
	283,587
Increase in cash and cash equivalents	18,529
Cash and cash equivalents - Beginning of period	–
Cash and cash equivalents - End of period	18,529
Supplemental cash flow information	
Interest paid	69
Non-cash transactions	
Issue of Class A Partnership Units on acquisition of casino operations (note 1)	227,180

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

1. Organization, acquisition and nature of operations

Organization

The Gateway Casinos Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia pursuant to the Declaration of Trust made as of October 10, 2002, as amended and restated on November 14, 2002. The Fund was established to invest indirectly, through the Gateway Casinos Trust (the "Trust"), in the securities of the Gateway Casinos Limited Partnership (the "Partnership"), which operates the Burnaby Casino in Greater Vancouver, British Columbia, the four Lake City Casinos in the Thompson/Okanagan region of British Columbia and the Palace Casino in Edmonton, Alberta.

On November 28, 2002, the Fund issued 10,567,000 units at a price of $10.00 per unit pursuant to an initial public offering and a further 15,850,687 units at a price of $10.00 per unit to the shareholders of Gateway Casinos Inc. ("GCI") for total net proceeds of $254,726,000 after deducting expenses of the offering of $9,451,000.

Acquisition

On November 28, 2002, the Partnership acquired the Burnaby Casino, the Lake City Casinos and the Palace Casino from wholly owned subsidiaries of GCI (the "Vendors") for total consideration of $275,539,000, consisting of Class A units of the Partnership ("Class A Units") with a stated capital of $227,180,000 and cash of $48,359,000. The acquisition of the casino operations has been accounted for using the carrying amounts of the assets purchased and liabilities assumed in the accounts of the Vendors (the "Historical Book Values") due to the related party nature of the transaction and shareholder arrangements among the shareholders of GCI. The net assets and liabilities acquired at Historical Book Values are as follows:

Cash and cash equivalents	$ 4,963
Other current assets	1,187
Prepaid rent	4,586
Property and equipment	11,129
Goodwill	1,702
Intangible assets	20,623
Current liabilities	(5,634)
Amounts due to related parties	(1,935)
Long- term debt	(900)
Net assets acquired	35,721
Consideration paid	275,539
Excess of consideration paid over Historical Book Values	$ 239,818

In accordance with generally accepted accounting principles for related party transactions, the excess of the consideration paid over the Historical Book Values of the assets acquired has been treated as a reduction of unitholders' equity.

The results of the casino operations acquired have been included in the Fund's consolidated financial statements from the date of acquisition.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

Nature of operations

The Burnaby Casino and the Lake City Casinos are operated pursuant to Casino Operational Services Agreements ("COSAs") between the Partnership and the British Columbia Lottery Corporation ("BCLC"). The Palace Casino is operated pursuant to a Casino Facility License, a Casino Gaming Retailer Agreement, a Video Lottery Retailer Agreement and an Electronic Racing Game Agreement between the Partnership and the Alberta Gaming and Liquor Commission ("AGLC"). The COSAs for the Burnaby Casino and the Lake City Casinos provide for a 10-year term commencing in 2001 (except for the Penticton Casino, which commenced in 2000), with an option to renew for an additional 10 years, subject to certain conditions. The Casino Facility License from the AGLC has a one-year term that expires on August 20, 2003 and has been renewed annually since 1996. Prior to 1996, the Palace Casino (from its opening in 1989) operated under casino support agreements with individual charities. The other agreements with the AGLC have no specified term and are effective until terminated, at the AGLC's discretion or for certain specified reasons. The Partnership earns gaming revenues based on an agreed percentage of the total win from table games, slot machines and other electronic games as consideration for providing operational services to the BCLC and AGLC.

The operating agreements related to the Partnership's casinos provide that the applicable governing body may suspend or terminate the rights of the Partnership to provide services under the agreements for certain specified reasons. The future operations of the casinos depend on the continuation of the operating agreements.

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Fund, the Trust, the Partnership and its general partner, Gateway Casinos G.P. Inc., and the Lake City Limited Partnership and its general partner, Lake City Casinos Limited. The consolidated statements of earnings, unitholders' equity and cash flows are for the period from November 28, 2002 to December 31, 2002. As the Fund commenced operations on November 28, 2002, no comparative information is provided.

3. Significant accounting policies

These consolidated financial statements reflect the following significant accounting policies:

Revenue recognition

Revenues from table games, slot machines and other electronic games consist of the Fund's share of the gaming win pursuant to its operating agreements with the BCLC and the AGLC and are recognized daily based on the daily net gaming win at each of the Fund's casinos. Revenues from food and beverage operations are recognized as the related goods are sold.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a maturity, at date of purchase, of three months or less.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

Property and equipment

Property and equipment are recorded at cost less amortization and facilities development funding from the BCLC. Management periodically reviews property and equipment for impairment and the assets are written down when the long-term expectation is that the net carrying amount will not be recovered. Amortization is provided for over the estimated useful lives of the assets on a straight-line basis at the following annual rates:

Furniture and other equipment	20% - 40%
Computer equipment	40%
Leasehold improvements	terms of the leases
Building	4%

Goodwill

Goodwill is recorded at cost and is not amortized. The Fund tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value will be charged to income in the period in which the impairment is determined.

Intangible assets

Intangible assets represent the fair value attributable to casino operating agreements or licenses acquired through the acquisition of operating casinos. Intangible assets are amortized on a straight-line basis over the term of the related agreement or license, including any extension option.

The Fund reviews these intangible assets on an annual basis or more frequently if events or changes in circumstances indicate that the asset may be impaired. Impairment would be recognized when the carrying value of the intangible assets exceeds the net recoverable amount.

Facility development fund recoveries

The Fund receives facilities development funding pursuant to the Burnaby and Lake City COSAs for eligible capital and operating expenditures.

Reimbursements of eligible capital and operating expenditures from the facility development fund ("FDF") are recorded as a reduction in the cost of the related assets or operating expenses, respectively, based on when the expenditures are incurred and the amount of funds accumulated in the related FDF account held in trust. If there are not sufficient funds available for reimbursement when the expenditures are incurred, the cost of the related asset or operating expense is not reduced until funds are available.

Financial instruments

The fair value of cash and cash equivalents, accounts receivable, FDF receivable, gaming revenue payable to BCLC and AGLC, accounts payable and accrued liabilities, due to related parties and distributions payable to unitholders approximate their carrying value due to the relatively short-term nature of these instruments. The fair value of the Fund's long-term debt approximates its carrying value as it bears interest at a floating rate (note 8).

The Fund is subject to interest rate risk on floating rate payments under its long-term debt. The Fund manages this exposure by entering into interest rate swap agreements. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities (note 13).

The fair value of the secured loans and the Class A Partnership Units approximate their fair value. Any distributions on or redemptions of the Class A Partnership Units are, pursuant to the terms of the secured loans, offset by interest received or repayments of the secured loans. Therefore, the financial exposures of the two instruments are offset accordingly.

Income taxes

Income taxes are not provided for in the Fund as the policy of the Fund and the Trust is to distribute all of their taxable income to unitholders on an annual basis.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

4. Distributable cash

The Fund's policy is to distribute all of its distributable cash each year to unitholders. Distributable cash is defined as the Fund's net earnings before amortization less capital expenditures and any reserves determined by the Trustees to be reasonable and necessary for the operation of the Fund. Distributable cash is not a defined term under Canadian generally accepted accounting principles.

Distributable cash for the period from November 28, 2002 to December 31, 2002 was as follows:

Net earnings for the period	$	2,622
Add:		
Amortization		368
Capital expenditures		(52)
Facility development fee received for property and equipment purchases		174
Distributable cash generated for the period	$	3,112
Distributions declared during the period	$	2,906
Distributable cash per unit	$	0.118
Distributions declared per unit	$	0.110

On December 17, 2002, the Fund declared a distribution of $2,906,000 to unitholders of record on December 31, 2002, which was paid in January, 2003.

5. Trusts funds and liabilities

Cash floats

Under the terms of the COSAs, cash floats of $3,490,000 for the casinos located in British Columbia are provided by the BCLC. These funds are used in the operations of the Fund but are not reflected in these financial statements. The Fund has provided the BCLC with letters of credit totalling $3,490,000 as security for the cash floats provided.

Facility development fund

The COSAs provide that a facility development fee, equal to 3% of the total win from table games and slot machines at the casinos located in British Columbia, shall be deposited into an FDF account from which the casino may draw, as reimbursement for eligible capital and operating expenditures, subject to the approval of the BCLC.

The FDF funds are held in trust by the Fund and have not been reflected in these financial statements.

The COSAs require that separate FDF accounts be maintained for the Burnaby Casino and for the Lake City Casinos.

a) Burnaby Casino

Cash held in trust at December 31, 2002 for reimbursement of eligible expenditures is as follows:

Balance of FDF cash held in trust as at date of acquisition	$	78
Additions from gaming revenue		303
Funds released		
Capital		–
Operating		–
FDF Balance - December 31, 2002	$	381

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

During the period, the Fund incurred eligible expenditures at the Burnaby Casino of $38,000 related to property and equipment additions and $45,000 related to operating costs, which have not yet been reimbursed as at December 31, 2002. These expenditures are recorded as facility development fund receivable and will be reimbursed upon approval of the BCLC.

b) Lake City Casinos

The Lake City Casinos have incurred approved eligible expenditures in excess of FDF funds available for reimbursement. In accordance with generally accepted accounting principles, the amount receivable on account of reimbursements of the excess eligible expenditures is not recorded as an asset of the Fund in these financial statements. Reimbursements are made, and recognized in these financial statements, as FDF funds are accumulated.

The activity during the period and balance of unrecovered eligible expenditures at December 31, 2002 is as follows:

	Capital	Operating	Total
Unrecovered eligible expenditures as at date of acquisition	$ 750	$ 12,794	$ 13,544
Eligible expenditures incurred	–	13	13
Reimbursement from FDF funds	(174)	(91)	(265)
Unrecovered eligible expenditures at December 31, 2002	$ 576	$ 12,716	$ 13,292

The balance of unrecovered eligible operating expenditures includes $12,703,000 relating to the approximate capital cost of leased casino premises. Recovery of these amounts is recorded as a reduction of occupancy costs when funds are received.

Progressive jackpot funds

Progressive jackpot funds are held in trust by the Fund and have not been reflected in these financial statements. The progressive jackpot liability represents the potential payout to progressive jackpot winners. Revenues in these financial statements are recorded net of amounts related to the progressive jackpot. The progressive jackpot funds of $841,000 are held in trust by the Fund at December 31, 2002.

6. Property and equipment

	Cost	Accumulated amortization	Net
Land	$ 50	$ –	$ 50
Building	84	–	84
Furniture and other equipment	1,544	60	1,484
Computer equipment	146	6	140
Leasehold improvements	9,145	165	8,980
	$ 10,969	$ 231	$ 10,738

The COSAs for the Burnaby Casino and the Lake City Casinos and the Casino Facility License for the Palace Casino provide that certain gaming equipment is the property of the BCLC and AGLC, respectively. Accordingly, any costs related to gaming equipment provided by and owned by the BCLC and AGLC have not been included in these financial statements.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

7. Secured loans

In connection with the acquisition of the casino operations (note 1), the Trust issued $227,180,000 of secured loans to the Vendors. The secured loans bear interest at 8.0% per annum, payable monthly in arrears, and are secured by the Class A Units held by the Vendors (representing 100% of the Class A Units outstanding at December 31, 2002) all distributions on account of such units, and all redemption proceeds of such units. The secured loans mature on November 28, 2032 and are payable in full at maturity. If and whenever any Vendor redeems Class A Units owned by the Vendor (note 9), the Vendor will pay the redemption amount as a repayment of the secured loan without penalty. In no event may a Vendor redeem any Class A Units without the consent of the Trust. The loan agreement also provides for the borrower to make optional prepayments, subject to certain conditions.

During the period, the Fund earned interest on the secured loans of $1,692,000.

8. Long-term debt

Promissory note	$	900
Revolving operating facility		22,700
		23,600
Current portion		–
	$	23,600

Promissory note

The promissory note is unsecured and is payable in 120 equal monthly instalments of $7,500 plus interest at prime plus 1.5%, beginning January 1, 2004.

Revolving credit facilities

On November 28, 2002, the Fund established credit facilities with a Canadian chartered bank. The facilities have a three-year committed term, and can be extended for additional 364-day periods, provided that the extension cannot be later than February 28, 2008. In the event that the facilities are not extended, any amounts outstanding at the maturity date will convert to non-revolving facilities repayable over a three-year period. The facilities consist of:

Revolving operating facility	$	25,000
Revolving letter of credit facility		7,000

Advances under the operating facility can be made by way of Bankers' Acceptances ("BAs"), with terms of 30 to 180 days, Cost of Funds based rate advances, with terms up to five years, or Prime Rate based advances. Advances made by way of BAs are discounted based on the current market discount rates for BAs with similar terms. The Fund pays a stamping fee of 0.875% on the face value of any BAs issued. Cost of Funds based advances bear interest at the cost of funds as determined by the bank at the time of advance, plus 0.875% per annum. Prime Rate based advances bear interest at the bank's prime lending rate.

The Fund pays a fee of 0.875% per annum on the average outstanding balance of letters of credit written under the credit facilities.

The Fund pays the bank a stand-by fee of 0.020% per annum on the unutilized amount of the credit facilities.

The credit facilities are secured by general security agreements and guarantees of Fund and certain of its subsidiaries.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

As at December 31, 2002 the Fund had $22,700,000 outstanding under the operating facility and $4,870,000 in outstanding letters of credit. The advances under the operating facility comprised $1,200,000 of Prime Rate based advances bearing interest at 4.5% per annum and $21,500,000 of Cost of Funds based advances bearing interest at 3.71% per annum.

During the period, the Fund entered into an interest rate swap agreement, effectively converting the interest rate on $21,500,000 of the outstanding amount under the operating facility from floating rate to fixed rate. After allowing for the effect of the interest rate swap, the effective interest rate on the facility for the period was 6.39% (note 13).

9. Class A Partnership Units

In connection with the acquisition of casino operations (note 1), the Partnership issued Class A Units with a stated capital of $227,180,000 to the Vendors.

The Class A Units entitle the holder thereof to:

a) a preferential, non-cumulative allocation of accrued income and distributable cash over all other partnership interests in the Partnership, equal to 8.01% per annum of the capital attributed to Class A Units;

b) a preference over all other interests in the Partnership, on distributions of capital and accrued income in the event of a liquidation, dissolution or winding-up or other distribution of the assets of the Partnership for the purpose of winding up its affairs, after payment of or other proper division of all of the liabilities of the Partnership, to a maximum of the capital attributed to the Class A Units, together with accrued income;

c) redeem Class A Units from time to time at the redemption price equal to the capital attributed to the Class A Units plus any accrued but unpaid income to the date of redemption; and

d) vote on amendments to the Limited Partnership Agreement which add, change or remove the rights, privileges, restrictions or conditions attached to the Class A Units or create a new class of units equal or superior to the Class A Units or as required by law, but in all other circumstances, the Class A Units will be non-voting.

The Class A Units, as well as all distributions and redemptions of the units, have been pledged as security for the secured loans (note 7).

The Class A Units have the attributes of a liability and have been reflected as such in these consolidated financial statements.

During the period, the Partnership allocated income of $1,695,000 to the Class A Units.

10. Trust units

The Declaration of Trust authorizes the Fund to issue an unlimited number of units in one class. Each Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund and in any net assets of the Fund in the event of termination or winding-up of the Fund.

Units are redeemable at any time at the option of the holder at amounts related to market prices of the units at the time. In the case of unitholders who hold units entitling them to more than 10% of the votes that may be cast to appoint Fund Trustees (a "Significant Interest") and who receive prior approval from the BCLC and AGLC, or unitholders who do not hold a Significant Interest, the redemption price will be paid in cash, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month (provided that the Fund's Trustees may at their sole discretion waive the $50,000 limitation). Where unitholders are not entitled to cash redemptions, the redemption price will be paid and satisfied by way of an in specie distribution of securities or assets held by the Fund, subject to any applicable regulatory approvals.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

On November 28, 2002, the Fund issued 10,567,000 units at a price of $10.00 per unit pursuant to its initial public offering, together with a concurrent issue of 15,850,687 units at a price of $10.00 per unit pursuant to a private placement. Expenses of the offering amounted to $9,451,000 and were charged against unitholders' equity.

	Units	Amount
Units issued on November 28, 2002		
Initial public offering	10,567,000	$ 105,670
Private placement	15,850,687	158,507
Expenses of offering		(9,451)
		254,726
Reduction to reflect excess of consideration paid over Historical Book Value of assets acquired (note 1)		(239,818)
Balance as at December 31, 2002		$ 14,908

Due to the related party nature of the acquisition of the assets of the Burnaby Casino, Lake City Casinos and the Palace Casino, the value of unitholders' equity has been reduced by the excess of the consideration paid over the Historical Book Values of the assets acquired (note 1).

11. Long-term incentive plan

The Fund has adopted a long-term incentive plan (the "Plan") to provide full-time employees, officers and trustees/directors of the Fund with compensation opportunities that will enhance the ability of the Fund to attract, retain and motivate key personnel and reward officers and employees for significant performance and cash growth. Bonuses, in form of units of the Fund, will be provided to eligible participants on an annual basis where the distributable cash of the Fund exceeds specified threshold amounts.

If distributable cash per unit exceeds the threshold amounts, a percentage of the distributable cash (the "Participation Rate") is contributed by the Fund into a long term incentive pool. The funds in the pool are used to purchase units of the Fund in the open market, to be provided to eligible employees as bonus compensation. Threshold amounts and participation rates are as follows:

Distributable cash per unit	Participation rate
Greater than $1.20 per unit, but less than $1.25	10%
Greater than or equal to $1.25, but less than $1.30	15%
Greater than or equal to $1.30	20%

The Plan, including the designation of eligible employees and allocation of the long-term incentive pool, is administered by the Compensation and Corporate Governance Committee of the Fund. No amount has been accrued or paid during the period.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

12. Related party transactions and amounts

As at December 31, 2002 the Fund had a net amount payable to GCI and the Vendors of $8,096,000, comprising the following:

Issue costs paid by GCI on the Fund's behalf (a)	$	2,624
Post closing working capital adjustment (note 1)		2,333
Income allocations on Class A Units (note 9)		1,695
Operating costs incurred by GCI and the Vendors on the Fund's behalf (b)		3,287
Interest receivable on the secured loans (note 7)		(1,692)
ATM fee (c)		(47)
Administration fee (d)		(104)
	$	8,096

a) Certain of the costs of the Fund's initial public offering, totalling $2,624,000, were incurred on the Fund's behalf by GCI. The Fund agreed to reimburse GCI for these amounts and they were repaid subsequent to the year end.

b) During the period from November 28, 2002 to December 31, 2002, GCI and the Vendors incurred costs on behalf of the Partnership related to the operations of the Burnaby Casino, Lake City Casinos and the Palace Casino. Total costs incurred were $4,246,000, comprising wages and benefits of $2,358,000, gaming revenue paid to the AGLC of $1,322,000 and direct operating costs of $566,000. The balance due to related parties at December 31, 2002 includes $3,287,000 of operating costs incurred on the Partnership's behalf that were repaid subsequent to the year end.

c) The Partnership has entered into a contract for Automated Teller Machine ("ATM") services at the Burnaby Casino from a subsidiary of GCI. The Partnership receives a fee of $500,000 per annum, payable in equal monthly instalments. The fee for the period from November 28, 2002 to December 31, 2002 amounted to $47,000 and is included in other revenue.

d) The Fund provides management and administrative services to GCI, a company owned by unitholders holding 60% of the outstanding units of the Fund. Pursuant to the terms of the management agreement, the Fund charges a fee to GCI equivalent to GCI's proportionate share of management and administrative expenses. The proportionate share is determined annually based upon a combination of factors including revenue, with consideration given to time spent by senior executives of the Fund for GCI on matters relating to sourcing and developing opportunities in the gaming industry. The Fund charged a fee of $104,000 to GCI for the period from November 28, 2002 to December 31, 2002, which is recorded as a reduction of administration expenses.

Also see notes 1, 7, 9 and 10.

13. Off-balance sheet financial instruments

The Fund enters into interest rate swap contracts with approved creditworthy counterparties to manage the Fund's exposure to interest rate risk. The Fund does not hold or issue derivative financial instruments for trading or speculative purposes. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the consolidated balance sheet.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

As at December 31, 2002, the Fund had one interest rate swap contract outstanding, as follows:

	Notional amount	Maturity date	Fair value
Interest rate swap contract	$ 21,500	June 14, 2007	$ (1,080)

The fair value of the interest rate swap reflects the estimated amount the Fund would have to pay if it were to unwind the contract at the reporting date.

14. Commitments and contingencies

Palace Casino expansion and renovation

During 2001, the Palace Casino was expanded and renovated at a total cost of approximately $12 million (including additions to furniture and equipment). As compensation for a portion of the costs of the renovation, the lease on the casino premises was amended to reflect a reimbursement through reduction of casino rent. The casino building is leased for a 15-year term commencing September 2001 and rent payments include a fixed amount plus contingent rent based on revenues. The lease was amended to reflect a minimum guaranteed monthly rent payment to the lessor for the term of the lease.

The Fund is not required to pay any amounts of the rent payments exceeding the minimum guaranteed rent until a notional amount of $5 million plus interest at 8.5% is recovered. As at December 31, 2002, rental payments have been reduced by a cumulative total of $1,301,680.

Upon completion of the expansion and renovation of the Palace Casino, $5.0 million of the project cost was recorded as prepaid rent which is being amortized to rent expense on a straight-line basis over the term of the lease. As at December 31, 2002, $4,555,000 of prepaid rent remains unamortized.

The Fund is negotiating with the landlord for an increase in the amount of the rent recovery. In the event additional amounts are recoverable, an equivalent amount will be reclassified from property and equipment to prepaid rent.

Operating lease commitments

The Fund leases certain office equipment and premises for office space as well as its casino locations. At December 31, 2002, future minimum operating lease payments were as follows:

Year ending December 31	
2003	$ 3,272
2004	3,253
2005	3,241
2006	3,282
2007	3,270
2008 and beyond	9,247
	$ 25,565

The above table includes only the guaranteed minimum rent payments in respect of the Palace Casino.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

15. Segmented information

The Fund has three reporting segments: the Burnaby Casino, the Lake City Casinos and the Palace Casino. The accounting policies for the segments are as described in note 3. All business of the Fund is conducted in Canada.

Revenue		
Burnaby Casino	$	3,211
Lake City Casinos		2,428
Palace Casino		1,875
		7,514
Earnings before corporate and general administration, interest and amortization		
Burnaby Casino		2,021
Lake City Casinos		701
Palace Casino		756
		3,478
Corporate and general administration		(354)
Earnings before interest and amortization		3,124
Amortization		
Burnaby Casino		(4)
Lake City Casinos		(201)
Palace Casino		(163)
		(368)
Interest income on secured loans		1,692
Income allocation on Class A Units		(1,695)
Interest expense, net		(131)
		(502)
Net earnings	$	2,622
Property and equipment additions (1)		
Burnaby Casino		39
Lake City Casinos		1
Palace Casino		12
	$	52

(1) Excluding recoveries from the FDF.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

December 31, 2002

Segment assets

	Burnaby Casino	Lake City Casinos	Palace Casino	Total
Property and equipment	$ 104	$ 3,974	$ 6,660	$ 10,738
Goodwill	–	1,441	261	1,702
Intangibles	–	20,517	–	20,517
Total segment assets	$ 6,729	$ 30,517	$ 18,816	56,062
Other unallocated assets				228,625
Total assets				$ 284,687

Management of the Partnership

Raymond A. McLean
Chief Executive Officer

Ray McLean is responsible for overseeing all of Gateway's strategic decisions and devotes the majority of his time to Gateway G.P. He has many years of professional and general management business experience, including the building and development of successful industrial and resource corporations. Ray is currently President and Chief Executive Officer of Trian Equities Ltd., a diversified venture capital company. In addition to acting as a Provincial Court Judge in British Columbia for 17 years, Ray was one of the early shareholders and a director of QLT Inc., one of Canada's most successful biotech companies.

Dave Gadhia
President

Dave Gadhia, a Chartered Accountant, is responsible for all of Gateway's operations. He has been with GCI since its inception in 1992, and oversaw the relocation of the Burnaby Casino, and the acquisition of the Palace Casino, the Lake City Casinos, and the Baccarat Casino in Edmonton. He is active in the affairs of the Casino Management Council of British Columbia.

Bradley D. Bardua
Chief Financial Officer

Bradley Bardua, a Chartered Accountant, is responsible for all financial and accounting matters relating to Gateway. He has extensive experience in the financial management of publicly traded companies. Prior to joining GCI, Bradley held senior financial positions with Leisure Canada Inc., Petrolex Energy Corporation and Hospitality Careers Online Inc., an online recruitment business for the hospitality industry.

Stephen B. Kumpf
Vice-President – Okanagan Operations of Gateway G.P.

Stephen Kumpf oversees the operations of Gateway's Okanagan Division. He was employed by Lake City Gaming from 1993 to 1997 as Manager, Finance and Administration, before being named President in January 1998. He continued in that role until Gateway Casinos Inc. acquired the company in 2002. Prior to joining Lake City Gaming, Stephen worked for several years as a Senior Account Manager, Commercial Lending for the Toronto Dominion Bank. He is active in the Casino Management Council of B.C. and belongs to the Kelowna, B.C. chapter of the Executive Round Table.

Daniel E. McLean
Vice-President – Facilities Management

Daniel McLean is responsible for the day-to-day management of Gateway's facilities and equipment. He was responsible for the construction of the Burnaby Casino, and the renovation and expansion of the Palace Casino. Daniel has owned and operated a range of retail establishments and oversees the operations of various other business enterprises owned by his family.

Monique A. Wilberg
Vice-President – GVRD Operations

Monique Wilberg, a founding shareholder of Gateway Casinos Inc., is responsible for the day-to-day gaming operations at the Burnaby Casino. She has more than 15 years of gaming industry experience and began her career at GCI as our Human Resources Manager. Prior to that, Monique was the Human Resources Manager of Great Canadian Casinos of Vancouver, B.C. Monique has been instrumental in developing both our systems for information management within surveillance and our systems for human resources management, specifically training and development. These systems are unique to our industry in Canada.

Howard M. Worrell
Vice-President – Alberta Operations

Howard Worrell is responsible for the day-to-day operations of Gateway's Alberta operations. He played a key role in the creation of the Palace Casino in 1989, and its subsequent relocation in 1990, and has served as its Chief Operating Officer since then. Prior to GCI's acquisition of the Palace Casino, Howard was involved in the design and development of The Satellite Bingo Network (TSBN), a live satellite broadcast of bingo games in Alberta and Washington state. He is active in the affairs of the Alberta Gaming Industry Association.

Trustees and Directors

Board of Trustees, Gateway Casinos Income Fund

Raymond A. McLean, Chairman
Chief Executive Officer, Gateway Casinos G.P. Inc.

Dave Gadhia
President, Gateway Casinos G.P. Inc.

Albert Gnat
Partner, Lang Michener

Albert Gnat has served major private and public corporations as a senior legal advisor for more than 25 years. He has been a partner at Lang Michener since 1974, and has built a broad-based corporate and commercial practice encompassing securities, mergers and acquisitions, and finance transactions, largely in the communications and technology sectors. Over the course of his career, Albert has developed senior level contacts throughout North America, Europe and the Far and Middle East. Albert currently sits on a number of Boards, including IKEA Limited and Rogers Communications Inc.

Anthony F. Griffiths
Independent consultant and corporate director

Anthony Griffiths has been an independent business consultant since 1994. Prior to that, he held the positions of President, CEO and Chairman of Mitel Corporation, a leading global provider of enterprise and small business communications solutions and services. Currently, Anthony is the Chairman of Slater Steel Inc. and Russel Metals Inc., as well as a director of various other corporations.

Dr. James J. Miller
Chairman and CEO, Neuro Discovery Inc.

Jim Miller is Chairman, President and CEO of Neuro Discovery Inc., a publicly traded investment management/venture capital company. He is also a director of a number of private and public companies including Inex Pharmaceuticals Corp., NeuroMed Technologies Inc. and Targeted Molecules Corp. A co-founder of Inex Pharmaceuticals Corp., Jim was the President and CEO of that company from 1992 until 1999, and Chairman of the Board until February 2001. Prior to that, from 1985 to 1991, Jim was Chairman, President and Chief Executive Officer of QLT Inc., which he co-founded in 1981.

B. Jeffrey Parr
Director, Co-Chief Executive Officer and
Managing Director, Clairvest Group Inc.

Jeffrey Parr, a Chartered Accountant, is Co-CEO and Managing Director of Clairvest Group Inc., a publicly traded merchant bank that provides equity capital to established businesses with the potential to produce superior returns. He has been active as a senior executive in the financial services industry since 1985. Jeffrey also serves as an active director of several companies, including Consolidated Vendors Corporation, Signature Security Group, and Datamark Group Inc., a Canadian market leader in the business document industry.

Ross J. Tocher
President, Marsonn Packaging Ltd.

Ross Tocher is an independent businessman whose primary focus is overseeing investments and investment strategies for various family holding companies. He is also a director of a number of private companies. Ross co-founded BrewKing Ltd., a manufacturer of commercial and consumer concentrates for wine production that achieved worldwide sales. BrewKing was sold to Andres Wines Ltd. in 1997.

Board of Directors, Gateway Casinos G.P. Inc.

Raymond A. McLean, Chairman
Chief Executive Officer, Gateway Casinos G.P. Inc.

Dave Gadhia
President, Gateway Casinos G.P. Inc.

Albert Gnat
Partner, Lang Michener

Anthony F. Griffiths
Independent consultant and corporate director

Dr. James J. Miller
Chairman and CEO, Neuro Discovery Inc.

B. Jeffrey Parr
Director, Co-Chief Executive Officer and
Managing Director, Clairvest Group Inc.

Ross J. Tocher
President, Marsonn Packaging Ltd.

Corporate Information

Corporate Office

Gateway Casinos Income Fund
210 – 4240 Manor St.
Burnaby, B.C.
V5G 1B2
Tel: 604.412.0166
Fax: 604.412.0117

Casinos

Burnaby Villa Casino
4320 Dominion St.
Burnaby, B.C.
V5G 4M7
Tel: 604.436.2211

Palace Casino
8882 170th St. NW
Edmonton, AB
T5T 4J2
Tel: 780.444.2112

Lake City Casinos – Kelowna
1300 Water St.
Kelowna, B.C.
V1Y 1P6
Tel: 250.860.9467

Lake City Casinos – Kamloops
540 Victoria St.
Kamloops, B.C.
V2C 2B2
Tel: 250.372.3336

Lake City Casinos – Penticton
21 Lakeshore Drive West
Penticton, B.C.
V2A 7M5
Tel: 250.487.1280

Lake City Casinos – Vernon
4801 – 27th Street
Vernon, B.C.
V1T 4Z1
Tel: 250.545.3505

Registrar and Transfer Agent

Computershare Trust Company of Canada

Auditors

PricewaterhouseCoopers LLP

Market Information

Units Listed: Toronto Stock Exchange
Trading Symbol: GCI.UN

Investor Enquiries

Bradley D. Bardua, CA
Chief Financial Officer
Gateway Casinos G.P. Inc.

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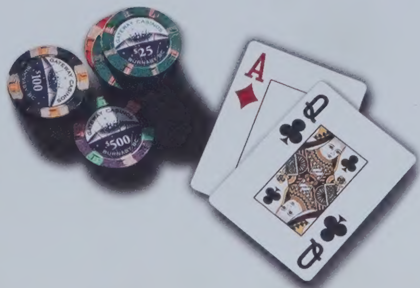
The Annual General Meeting of
The Gateway Casinos Income Fund
will be held on Thursday, May 22, 2003, 1:30pm
at The Terminal City Club
837 West Hastings St.
Vancouver, B.C.



GATEWAY CASINOS